DEPARTMENT OF JUSTICE

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND

FINANCIAL STATEMENTS

For the Year Ended March 31, 1999

SASKATCHEWAN

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7

Phone: (306) 787-6398
Fax: (306) 787-6383
Internet e-mail: info@auditor.sk.ca

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the balance sheet of the Correctional Facilities Industries Revolving Fund as at March 31, 1999 and the statements of operations and accumulated operating surplus/deficit and changes in accumulated net expenditure for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Wayne Strelioff

Regina, Saskatchewan
September 1, 1999

Wayne Strelioff, CA
Provincial Auditor

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND
BALANCE SHEET
AS AT MARCH 31

	1999	1998
ASSETS		
Current assets:		
Accounts receivable	$ 328,922	$ 310,782
Inventory	210,512	240,548
	539,434	551,330
Capital assets (Note 5)	139,341	165,424
	$ 678,775	$ 716,754
LIABILITIES AND FUND EQUITY		
Current liabilities:		
Accounts payable	$ 130,927	$ 133,568
Non-Current liabilities:		
Accumulated net expenditure (Statement 3)	766,284	778,743
Fund equity:		
Accumulated operating deficit (Statement 2)	(218,436)	(195,557)
	$ 678,775	$ 716,754

(See accompanying notes to the financial statements)

Statement 2

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND
STATEMENT OF OPERATIONS
AND ACCUMULATED OPERATING SURPLUS/DEFICIT
FOR THE YEAR ENDED MARCH 31

	1999		1998
	Budget (Note 10)	Actual	Actual
Sales	$ 1,251,000	$ 933,058	$ 1,187,848
Cost of goods sold (Note 6)	1,049,860	817,904	989,722
Gross profit	201,140	115,154	198,126
Operating expenses:			
Salaries	226,170	229,566	231,248
Office supplies	3,450	6,010	6,384
Repairs and maintenance	8,750	8,397	8,977
Delivery	1,450	3,852	1,663
Travel	8,640	14,453	7,117
Warranty	2,600	500	—
Amortization	2,660	2,838	1,347
Bad debts/allowance (recovery)	3,150	2,402	66
Inmate assessment	19,750	22,707	22,662
Advertising	2,200	4,380	213
Miscellaneous	4,825	12,495	11,083
	283,645	307,600	290,760
Loss from operations	(82,505)	(192,446)	(92,634)
Other income	—	7,019	—
Gain on sale of assets	—	20,548	—
Subsidy from General Revenue Fund	141,927	142,000	139,000
Net income (loss)	$ 59,422	(22,879)	46,366
Accumulated operating (deficit), beginning of year		(195,557)	(241,923)
Accumulated operating (deficit), end of year - to Statement 1		$ (218,436)	$ (195,557)

(See accompanying notes to the financial statements)

Statement 3

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND
STATEMENT OF CHANGES IN
ACCUMULATED NET EXPENDITURE
FOR THE YEAR ENDED MARCH 31

	1999	1998
Financing (provided by) required for operating activities:		
Net loss (income)	$ 22,879	$ (46,366)
Items not affecting working capital		
- amortization	(42,933)	(43,806)
- gain (loss) on disposal of capital assets	20,548	(614)
Working capital changes related to operations		
Increase in accounts receivable	18,140	72,436
(Decrease) in inventories	(30,036)	(50,827)
Decrease in current liabilities	2,641	6,087
	(8,761)	(63,090)
Financing (provided by) required for investing activities:		
Purchase of capital assets	20,262	27,032
Proceeds from sale of capital assets	(23,960)	(1,624)
	(3,698)	25,408
Net expenditure/(recovery):	(12,459)	(37,682)
Accumulated net expenditure, beginning of year	778,743	816,425
Accumulated net expenditure, end of year - to Statement 1	$ 766,284	$ 778,743

(See accompanying notes to the financial statements)

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS
March 31, 1999

1. Authority and Definition of Reporting Entity

The Revolving Fund operates under the authority of Section 53 of *The Correctional Services Act*. The purpose of the Revolving Fund is to rehabilitate inmates by operating work programs intended to provide practical and marketable work skills for inmates and to reduce the costs of inmate programming.

2. Accounting Policies

The financial statements are prepared using generally accepted accounting principles. These financial statements do not present a cash flow statement because the required cash flow information is readily apparent from the Statement of Changes in Accumulated Net Expenditure. The following accounting policies are considered significant:

a) Net Expenditure/(Recovery)

The net cash expenditure/(recovery) is the cash flow from/(to) the General Revenue Fund. It represents the total annual financing requirements resulting from the acquisitions, working capital changes and net cash flows from operations.

b) Accumulated Net Expenditure

The accumulated net expenditure of the Revolving Fund includes the following:

i) the net expenditure/(recovery) for each fiscal year, and

ii) the book value of assets acquired at no charge from other government agencies.

c) Inventories

Inventories are valued at the lower of cost and net realizable value.

d) Capital Assets

Capital assets are recorded at cost. The cost and related accumulated amortization of items retired or disposed of are removed from the records and any gains or losses are included in the statement of operations.

Amortization is calculated on the straight-line basis at an annual rate of 10% for equipment and leasehold improvements and on a diminishing balance basis at an annual rate of 30% for tools and other assets.

3. Authorized Financing

Subsection 53 (10) of *The Correctional Services Act* specifies that the maximum amount of accumulated net expenditure which may be outstanding at any time will be set by order of the Lieutenant Governor in Council. A maximum amount of $900,000 was established by Order in Council 816/89.

4. Disposition of Accumulated Operating Surplus or Deficit

In accordance with subsection 53 (4) of *The Correctional Services Act*, the Minister shall pay to the General Revenue Fund all or any part of any surplus in the Revolving Fund that Treasury Board may direct. Treasury Board has specified that the maximum accumulated surplus/deficit for the Revolving Fund shall be $100,000. Treasury Board has also specified that if at the end of a fiscal year the accumulated surplus/deficit exceeds the maximum, then any surplus/deficit in excess of the maximum shall, as soon as possible after the close of the fiscal year, be paid to/from the General Revenue Fund.

However, if any deficit is in fact a subsidy and not a deficit due to business fluctuations, it must be recovered from the General Revenue Fund (Department of Justice's appropriation) in the same year. The Department budgets for a subsidy to the Revolving Fund in the same year that the deficit is expected to occur.

5. Capital Assets

	1999			1998		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment	$ 267,542	$ 169,616	$ 97,926	$ 277,888	$ 156,222	$ 121,666
Tools	54,468	43,251	11,217	52,423	38,444	13,979
Leasehold Improvements	70,269	50,209	20,060	66,229	43,182	23,047
Other	29,813	19,675	10,138	22,423	15,691	6,732
	$ 422,092	$ 282,751	$ 139,341	$ 418,963	$ 253,539	$ 165,424

6. Cost of Goods Sold

Cost of goods sold consists of the following:

	1999	1998
Materials	$ 418,175	$ 563,691
Supplies	21,293	28,796
Small tools	8,466	5,829
Inmate labour	41,302	47,977
Inmate incentive	82,403	87,373
Amortization	40,093	43,074
Staff salaries	184,998	179,750
Shop expense	21,174	33,232
	$ 817,904	$ 989,722

7. Amount Reported in the Public Accounts

The net recovery of the Revolving Fund reported in Public Accounts is the net income of the Revolving Fund adjusted for differences in accounting policies and other adjustments between the Revolving Fund and the General Revenue Fund:

	1999	1998
Net income (loss) after subsidy	$ (22,879)	$ 46,366
Decrease in inventory balance	30,036	50,827
Decrease in net capital assets	26,083	19,012
Amounts not included in Public Accounts due to timing	(8,810)	378
Net recovery reported in the Public Accounts	$ 24,430	$ 116,583

8. Related Parties

These financial statements include transactions with related parties. The Revolving Fund is related to all Saskatchewan Crown agencies such as departments, corporations, agencies, boards and commissions under the common control of the Government of Saskatchewan. Also, the Revolving Fund is related to enterprises that the Government jointly controls or significantly influences.

Routine operating transactions with related parties are settled on normal trade terms. These transactions, and amounts outstanding, at year end are as follows:

	1999	1998
Revenue	$ 324,018	$ 300,232
Accounts receivable	68,608	76,211

In addition, the Fund pays Saskatchewan Education and Health Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and notes thereto.

In accordance with established government policy, the Fund has not been charged with certain costs including occupancy, financing and certain administrative costs. These costs have been absorbed by the various departmental appropriations and therefore no provision for such costs is reflected in these financial statements.

9. Financial Instruments

The Revolving Fund's financial instruments consist of accounts receivable, accounts payable and accumulated net expenditure.

a) Significant terms and conditions

There are no significant terms and conditions related to the financial instruments that may affect the amount, timing and certainty of future cash flows.

b) Credit risk

The Revolving Fund is exposed to credit risk from the potential non-payment of accounts receivable. Accounts receivable balances are with many customers, therefore, credit risk is minimal.

c) Fair value

The carrying amounts approximate fair value due to their immediate or short-term nature. The fair value of the accumulated net expenditure has been omitted because it is not practicable to determine the fair value with sufficient reliability.

10. Budget

These amounts are included in the budget submitted to Treasury Board for approval. Treasury Board approves the Revolving Fund's budget annually.

11. Contingency

The Revolving Fund has been served a Statement of Claim regarding the manufacture of a play structure. The merits of the claim are unknown and an estimate of the extent of damages, if any, cannot be made.

12. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems

failure which could affect the Fund's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Fund, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

13. Comparative Information

Certain 1997-98 balances have been reclassified to conform with the current year's presentation.